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RUEHVK/AMCONSUL VLADIVOSTOK 0235
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RUEHBK/AMEMBASSY BANGKOK 1723
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RUEHGP/AMEMBASSY SINGAPORE 0398
RUEHKL/AMEMBASSY KUALA LUMPUR 0250
RUEHHI/AMEMBASSY HANOI 0114
RUEHPF/AMEMBASSY PHNOM PENH 0077
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MG, RU
SUBJECT: THEY'RE BA-ACK! RUSSIANS RE-ENGAGE MONGOLIA

SENSITIVE BUT UNCLASSIFIED - NOT FOR INTERNET DISTRIBUTION.

1. (SBU) SUMMARY: Russia has recently focused renewed attention on the Russia-Mongolia relationship. Russia recently offered to equip Mongolia with around \$120 million worth of military hardware, possibly including pushing Mongolia to take two MiG-29 fighter jets.. Less conspicuous, but no less important, are other actions that signal an increasing Russian effort to re-establish its presence in Mongolia. High-level visits are occurring with greater frequency and at higher levels, governmental agreements are being signed and efforts are being made to strengthen trade links. Prime Minister S. Bayar, a former Ambassador to Russia, will make his first official visit to Russia soon, probably in March. This will follow a visit to Mongolia by the acting chairman of Russia's NSC. The No. 2 official of Mongolia's dominant political party recently visited Moscow at the invitation of Vladimir Putin's party. Russia, Mongolia's second biggest trading partner, has dispatched several senior railway officials to Ulaanbaatar and reportedly plans to invest US\$1 billion in Mongolia's railway system. Interaction between Mongolia and the neighboring Russian Republic of Buryat is flourishing; an agreement aimed at boosting trade was recently signed, and ethnic Buryat tourists and businesspeople from Russia are flocking to Ulaanbaatar. To date, the Russians have made little headway in securing the Mongolian mineral resources they crave, but corruption and a reliance on Russian petroleum renders Mongolia vulnerable. How receptive Mongolia is to Russian attempts to rekindle their old flame will be guided more by strategic self-interest than any sense of bilateral affinity. END SUMMARY.

BACKGROUND

12. (SBU) Ties between the two countries run long and deep. For nearly 70 years, Mongolia was known as the unofficial 16th republic of the Soviet Union. But in late 1989 and early 1990, street demonstrations set Mongolia on a path toward democracy and open markets. Not long thereafter, Moscow rapidly withdrew its soldiers, advisors and material support. Years of painful economic and social adjustment ensued. Because Russians had managed most Mongolian companies, Mongolians lacked the skills and experience to keep the firms afloat. As enterprises failed, many city workers went back into agriculture or herding, but not before food and power distribution networks collapsed, leading to near-famine conditions. Over the past few years, with western and Chinese influence in Mongolia expanding, Russia has taken steps to re-engage Mongolia. Russia now provides virtually all of the oil (95%) that powers Mongolian vehicles, and is the largest buyer of Mongolian meat. Russian officials and industrialists salivate at Mongolia's largely untapped mineral deposits. Russia watches as Mongolia increasingly asserts itself on the world stage, contributing troops to the Iraq coalition and hosting six-party talks (6PT) on North Korea.

HIGH-LEVEL VISITS

13. (SBU) Prime Minister Bayar will make his first official visit to Russia soon, probably in March. This will follow a visit to Ulaanbaatar by the acting chairman of Russia's national security council, Major General V.A. Sobolev (septel), who met on February 21 with President Enkhbayar to discuss security cooperation. Sobolov also had meetings scheduled with PM Bayar and Mongolia's Ministers for Defense, Foreign Affairs, Justice and Agriculture. Separately, the Secretary General of the ruling Mongolian People's Revolutionary

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Party (MPRP), Yo.Otgonbayar, along with another high-level MPRP official, visited Moscow recently at the invitation of Vladimir Putin's United Russia party. Otgonbayar was to meet with United Russia leader V. Gryzolv (who is also Speaker of the Duma).

DORMANT DEFENSE COOPERATION GAINING LIFE?

14. (SBU) Russia's decision to provide to Mongolia around \$120 million worth of conventional weapons and other military equipment, including MI-24 attack helicopters and possibly two MiG-29 fighter jets, has drawn renewed attention to the bilateral relationship. (Note: Although the terms of the deal are not yet clear, it would be a combination of grant aid and low-interest loans.)

WORKIN' ON THE RAILWAY

15. (SBU) The President of the Russian railway, V.S. Yakunin, is scheduled to visit Mongolia from February 27 to 29. The Russians are reportedly planning to invest US\$1 billion in Mongolia's railway system and to offer railway training to 33 Mongolian workers. (Note: After providing virtually no real investment in the joint venture railroad for decades, the Russians have recently offered these improvements in the form of loans, which they say the Mongolians can pay off by ceding development rights to a variety of mineral and natural resources. End Note.) Yakunin's visit was preceded by that of the Russian railway's vice chairman, who held talks with Transport Minister R.Rash.

RUSSIAN BANK LOANS SOUGHT

16. (SBU) Rash has courted Russian funding for new buses to replace the creaking, overcrowded ones that blight the streets of the Mongolian capital. It was reported on February 7 that Rash's Transport Ministry is seeking to borrow US\$21 million from Russia's Vostok Bank, to pay for 13 Kamaz buses. If a loan is extended, new buses could start service in Mongolia by November 2009.

GROWING INTERACTION WITH RUSSIA'S BURYATS

17. (SBU) In mid-February in Ulaanbaatar, officials of the Mongolian Government (GOM) and the Russian Buryat Republic signed an agreement on border cooperation, aimed at facilitating trade. Media quoted Buryat President Vyacheslav Nagovitsyn as saying that annual trade between the Buryat Republic and Mongolia should be ramped up to US\$1 billion, up from US\$39 million at present. The agreement identifies specific steps to boost cooperation in industry, the energy sector, construction, transportation and agriculture. Meanwhile, there has been a notable increase in the number of ethnic Buryat Russians making visits to Ulaanbaatar as tourists and businesspeople. Buryats are now present in many shops and cafes of Ulaanbaatar. Their appearance is virtually undistinguishable from Mongolians; it is only when they speak that most are identifiable as Buryats.

REGIONAL CONTACTS

18. (SBU) In Russia's Chita region, northeast of Mongolia, authorities received a delegation in late January led by Ts. Janlav, the Governor of Mongolia's far eastern province of Dornod. The two

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sides signed an agreement calling for cooperation in the fields of agriculture, road construction, and energy/infrastructure. Earlier that month, business representatives from the Mongolian provinces of Uvs and Khovd met in Uvs with counterparts from Russia's Tuva Republic and the Chinese Inner Mongolian province of Altai. Four agreements and eight business deals were concluded; among the latter were transactions involving milk, wool processing and pasta production.

MONGOLIA'S MINING SECTOR EYED

19. (SBU) In Ulaanbaatar in December 2007, a business forum was organized by Gazprombank, Russia's biggest non-state-owned bank. The gathering brought together Mongolian and Russian business groups, with many of the latter expressing interest in investing in Mongolia's mining sector. Gazprombank and another major Russian firm, Polimetall, made clear their interest in uranium extraction and a poly-metals deposit in Mongolia's far west. (Note: Although Mongolia has generally resisted Russian efforts to dominate key Mongolian copper and coal projects, Mongolia has embraced Russian proposals for involvement in uranium projects. End Note.) Separately, an industrial group created by President Putin, Russian Technologies, is reportedly exploring the purchase of the Russian government's 49% stake in Mongolia's biggest copper mining company, Erdenet. (Note: Erdenet, 51% owned by the GOM, mines 530,000 tons of copper annually and 3,000 tons of molybdenum. End Note.)

ADDICTED TO RUSSIAN OIL

11. (SBU) Russia remains the source of about 95% of the oil used in Mongolia. (Note: In 2007, Mongolia imported US\$533.5 million worth of oil products. Mongolia has also sought oil deals with Kuwait and others to reduce its dependency on Russia.) Petroleum price increases have led to 15-percent inflation that caused gas prices and taxi fares to double in the second half of 2007. With Parliamentary elections scheduled for June 29, Mongolia's Trade and Industry Minister Kh.Narankhuu indicated on February 20 that the GOM had reached an agreement with oil importer Rosneft to keep fuel prices stable -- through June. Some Mongolians are concerned that Mongolian economic development could be arrested if Russian energy suppliers hike prices too sharply. Others worry about their country's food security, with wheat imports, primarily from Russia, meeting between 60 and 70 percent of domestic demand. (Note: Russia's Agriculture Minister Gordeyev reportedly said that Russia is prepared to deliver 250,000 to 300,000 tons of grain to Mongolia. It has also been reported that Russia will waive export taxes on wheat and flour products to Mongolia. End Note.)

¶11. (SBU) Mongolia is positioned to benefit from its location smack-dab between Russia, the regional oil supplier, and China, one of Russia's key oil buyers. Much of the Russian oil bound for China, to feed that country's seemingly insatiable thirst for fuel, could be pumped more efficiently through Mongolia. However, the Chinese have resisted Russian and Mongolian pushes for pipelines and large-scale, regular petroleum shipments through Mongolia. At present, most Russian oil is shipped to China via roundabout routes that add to shipping costs and cut out Mongolia (thus denying it the ability to charge a tariff). GOM contacts say Mongolia has made clear to Russia that if it wants to show good faith in re-engaging

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Mongolia, it should press for oil transshipments through Mongolia.

ALLEGATIONS OF RUSSIAN MOB PRESENCE

¶12. (SBU) Mongolian newspapers have increasingly reported on the alleged presence of Russian Mafiosi in Mongolia, but little evidence has been presented to bolster such claims. The leading "Onooder" daily reported that the director of gold-mining firm Altan Dornod was leaving Mongolia and selling his mining licenses because of the influx of new Russian gangsters. The truth, however, may be less sensational. It seems that the firm owes the GOM a considerable amount of tax money.

WATER A POTENTIAL FLASHPOINT

¶13. (SBU) Water is shaping up as a potential flashpoint in Russia-Mongolia relations. The Selenge River Basin, Mongolia's largest watershed, provides 51% of the flow into Lake Baikal, whose waters and rivers confer substantial economic benefits upon Russia's far east. Mongolia has never significantly tapped the Selenge River Basin for agricultural purposes or hydroelectric power. But the Mongolians have started weighing their options. Some have suggested establishing a dam along the Eg River, a Selenge tributary. GOM sources say that when Mongolia has raised the issue of Mongolia's rights to Selenge waters, the Russians have unenthusiastically responded with vague ideas about "sharing the waters." Because the development of various minerals and agricultural resources will require water from the Selenge Basin, Mongolia's long-ignored water could become a source of bilateral friction.

COMMENT

¶14. (SBU) The Russians are clearly on their way back. Russian mining firms, largely state-owned monopolies, have made no secret that they would love to be involved in Mongolian mining projects (or that they would pay dearly, above the table or elsewhere, for exclusive rights.) The press and the rumor mill have continued to spit out allegations that the Russian Government - and oligarchs such as Oleg Deripashka, owner of Russia's Basic Element group -- routinely offer million-dollar bribes to GOM officials and Parliamentarians, to secure rights to resources. Yet for all the talk of bribes and intrigue, the Russians have thus far made little headway in securing the resources they crave. The GOM has in recent years proven adroit at keeping Russia interested but at bay, by balancing promises of cooperation with threats to turn to other nations. However, Mongolia's reliance on Russian fuel leaves Mongolia vulnerable, as does Mongolian corruption. How receptive Mongolia ends up being to Russian attempts to rekindle their old flame will depend more on strategic self-interest than on any sense of bilateral affinity. Many Mongolians are fond of the Russians, and Mongolian culture is still heavily influenced by that of its northern neighbor. But the painful Russian pullout of 1990 has not been forgotten.

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